

FISCAL NOTES



DECEMBER REVENUE (IN MILLIONS): SALES TAX: \$1,813.6 OIL PRODUCTION: \$105.2 NATURAL GAS: \$93.3 MOTOR FUELS: \$265.3 MOTOR VEHICLE SALES: \$224.1 TOBACCO: \$117.5

THIS IS THE
LAST PRINTED ISSUE
OF *FISCAL NOTES*.

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A Look at the Basics **SEE PAGE 8**

Rainy Day Fund 101

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LETTER FROM THE COMPTROLLER

The expression “save for a rainy day” has been around for a long, long time, dating back to when most people’s livings involved agriculture — and the weather. Rain meant no work in the fields, so hired hands knew it was always best to have a little cash stashed away, just in case.

There’s plenty of wisdom in old sayings that have their roots in farms and ranches. And we should thank our lucky stars that Texas voters established our own rainy day fund, as the Economic Stabilization Fund came to be known, in 1988.

Other down-home sayings offer sound economic advice. Like the expression “don’t put all your eggs in one basket.”

In the late 1970s and early 1980s, our state’s economy largely centered on oil and gas production. But as boom cycles went bust, we learned the value of diversification. In recent years, our finance, technology and health care sectors have grown substantially, giving us an economy more diverse than those of New York, Florida, California and Illinois. That serves us well, indeed.

Then there’s the truism that “you reap what you sow.” We have continually cultivated a pro-business environment in Texas and — because we like business — business likes us. So when an executive decides to expand an operation or relocate a company within our borders, we reap new jobs and greater opportunities for Texans.

In this issue of *Fiscal Notes*, we take a timely look at Texas’ rainy day fund and reflect upon how fortunate we are that Texans and their elected officials recognized the importance of setting aside money in good times. In a time when consensus is often difficult to find, I think that’s something we can all agree on.

Finally, I’d like to tell you about major changes coming for *Fiscal Notes*. Given the tight financial times facing state government

today, we’ve decided to make the leap to online-only publication. We’ll be able to save on printing and mailing costs while still providing you with the thoughtful and objective writing you’ve come to expect. I hope you’ll take the time to subscribe to our *Fiscal Notes* mailing list at www.fiscalnotes.com. We’ll send you e-mail updates whenever a new issue hits the Web. See you there!



ACROSS TEXAS

► The **city of Corpus Christi** recently obtained a \$1.9 million loan from the Texas Water Development Board to increase the capacity of its 56-year-old O.N. Stevens Water Treatment Plant.

► The **Clear Lake Regional Medical Center** announced a \$92 million expansion and renovation project with an expected completion date of summer 2013. The project will include a new 154,000-square-foot building for operating and intensive care facilities.

WE’RE BACK!

F*fiscal Notes* took a brief hiatus this fall as we prepared and published our agency’s groundbreaking report *Connecting the Dots: School Spending and Student Progress*. The report identifies Texas school districts that achieve strong student performance while keeping spending growth to a minimum. Check out the full report on our companion website, www.FASTexas.org, which provides a unique analysis of public education spending and academic results.



THESE COST-CONSCIOUS TIMES bring new challenges for all state agencies. At the Comptroller’s office, our goal is to provide the highest level of service to our citizens without increasing spending.

To help meet this goal, we’re examining our printing costs and moving forward with plans to provide more content, including issues of *Fiscal Notes*, online. **If you have not already subscribed to our *Fiscal Notes* e-mail update list, it’s easy to do at**

www.fiscalnotes.com.



A New Plan For Space by Bruce Wright

An Interview with Richard Garriott, Part 2

DOERS AND



DREAMERS

In our last issue of Fiscal Notes, entrepreneur and adventurer Richard Garriott discussed the beginnings of the private space industry, and the entry of a new generation of entrepreneurs into the field. Our conversation continues with the administration's plans for greater reliance on private space vehicles.

FN: I'd like to ask your opinion of the new direction at NASA.

Garriott: I'm a big fan. Having lived on board the International Space Station for two weeks and studied it to some significant degree, it really is a phenomenal laboratory. But it also has been stunningly expensive to build and maintain. Personally, I can't think of research that's valuable enough, or commercial activity that would return enough value, to [justify] the kinds of costs we currently pay for our space program.

But if you drop the price by, say, one order of magnitude, I think there are *lots* of things that are valuable to do on the space station and in space in general. And that's exactly what I believe can and *will* happen through the new plan for space.

And I think that the NASA budget is still quite sufficient — if you start leaning on private industry. You'll not only succeed at exploiting low earth orbit in a way that is valuable to humanity, but you'll free up the resources that are necessary to push humanity further and further into space.

FN: Now that we're at the end of the space shuttle program, what would you say that it has meant for space exploration?

Garriott: Well, the shuttle has been an astounding success, but also has shown some stunning weaknesses.

It allowed us to build the space station. Without something like a shuttle, it truly would not have been possible. And the vast majority of people who have flown into space have done it on the space shuttle. That's the good news.

The bad news is that the reusability plan originally envisioned for the space shuttle — where it was going to fly every week or two and the cost would come down to \$100 million a launch or so — never materialized. It still costs a billion dollars a launch. Generally, it flew three or four times in a year.

So it's time to bring that era to a close.

But in the future — as I look at the vehicles under development, there are a few I'm particularly excited about. For suborbital activities, I'm particularly excited about Texas' Armadillo Aerospace, because I think they're going to prove to be the cost, safety and launch-frequency winner by a long shot.

"The NASA budget is still quite sufficient — if you start leaning on private industry. You'll free up the resources to push humanity further and further into space."

— Richard Garriott
entrepreneur, space adventurer

CONTINUED ON PAGE 4

NASA plans to make greater use of private enterprise.



Photo courtesy of NASA



“[Aerospace] contractors have to reinvent themselves into being competitive companies, not government-handout companies.”

— Richard Garriott

CONTINUED FROM PAGE 3

For orbit, not only do we have early entries like SpaceX, but also the [existing] Atlas and Delta rockets, which I think can be reconfigured for people and be very competitive.

Sierra Nevada is developing a crew capsule they call a Dream Chaser, which is basically a tiny little shuttle just for crew — no cargo, just a crew compartment — that I think can be made safely and cost effectively and bring people back down to a runway, which would be mighty nice.

In England, there’s a group called Reaction Engines building a vehicle called Skylon that, if they succeed at tackling a number of still very tough engineering problems, will be a single-stage-to-orbit space shuttle — no external tanks or strap-on boosters — and it could take 10 tons of crew or cargo up to the space station and land again with 10 tons.

And if that actually works, and it’s truly reusable, that would bring the cost to orbit down by 10- to a hundred-fold. So there’s some truly game-changing economics that are coming to space — as long as we do the new plan for space, which calls for commercialization.

FN: In Texas, we’re looking at layoffs with the end of the shuttle program. And this is part of the state’s technical knowledge base. What do you think is going to happen to it? Some people are throwing around the figure of 7,000 layoffs. What’s going to happen to that brain trust around Clear Lake, or rather, what *should* happen? What should be done with that very important part of the economic mix here in Texas?

Garriott: If you look at the way the space program is structured, the vast majority of those people work for contractors.

And so in my mind the responsibility is not NASA’s. It’s with the prime contractors. And those companies, when they go talk to politicians, I would be saying, “I don’t care whether you’re building shuttles or Atlases or Deltas — what I care is how you’re paying for it.” Again, instead of government buying the orbiter and the boosters and setting it up themselves, we should pay a contractor to put it all together and buy it as a launch service. And by doing that, we’ll introduce competition.

And so one solution is that one of these big primes should say, well, I’m going to compete. I’m going to build a shuttle Mark II, and I’m going to find a way to make it cost-effective. They should put their money where their mouths are. The only reason they should need NASA is to give them a contract for



Photo courtesy of NASA

ABOVE — *End of an era: space shuttle Discovery being prepped for its last flight.*



a launch or two, to prove they can put a launch together. They've just got to decide to do it.

And so I don't think we need to lose Texas' brain trust, because of the activity that we're going to have within five years on the commercial side. As costs go down, launch frequency is going to go up. There will be more launches in the new era than there have been in the past by a significant margin.

Senior managers in these companies are going to have to decide, "Am I going to do layoffs or am I going to reinvent my company?" Those contractors have to reinvent themselves into being competitive companies, not government-handout companies.

FN: What do you see as the likely course of private space efforts over the next 10 to 15 years?

Garriott: Well, for example, the Russian Soyuz is right now the cheapest and safest way to go to space. If you were to go to Russia and say, "I want to buy a launch," they would sell you one for somewhere in the neighborhood of \$150 million.

Most of the Soyuz rocket is basically just a fuel tank that is discarded. And the fuel, which is kerosene and liquid oxygen, costs about \$800,000 out of that \$150 million. So the cost of going to space has nothing to do with energy, relatively speaking.

BELOW — Reaction Engines' proposed Skylon vehicle could deliver 10 tons of payload to orbit.



Photo courtesy of Reaction Engines Ltd.

The *real* reason why it's so expensive is because you're throwing away the rocket and have to build another whole new one. It takes 5,000 people about two years to build this rocket that you throw away, and about 5,000 to operate it while it's in space.

And so as we get to reusability, this price is going to come down fast. To get off Earth, all we've got to do is quit throwing away the rocket. The shuttle was hypothetically reusable, but of course, we still tear it apart and rebuild it at almost the same cost as a new one, each time.

[Rocketry] has got to become as simple as filling up the car with gas and pressing Go again — which, by the way, Armadillo Aerospace up in Dallas is doing very, very well.

But here's what interesting about the cost calculus.

I paid tens of millions to ride on Soyuz. It's a lot of money no matter who you are; that's a ton of money. And so I wanted to find work that I could do that would offset that cost as much as I could because, you know, I was having a hard time paying for this.

And so I was willing not only to do anything anybody wanted me to do in space, but I was looking for businesses I could build in space, not only to pay for this flight but maybe to have the opportunity to go again some time in the future.

And so for a flight that cost me tens of millions, I managed to find millions of dollars of work to do. While it didn't pay for my flight, if it had cost me one-tenth of what it did, I actually *could* have paid for my flight to space. And if you don't throw away the rocket — you just refuel it and go — it's well *below* a tenth of the cost.

And so, as prices come down, if I can make a profit with my flight, I'm going every day I can. And I'm not the only

one who will feel that way.

We are literally one or two generations of private rockets away from the moment where the cost of access to space falls below the amount of money you can easily generate with your time in space. And when that day occurs, we're going to go from space travel being rare to it being extremely common. **FN**

Our conversation with Richard Garriott concludes in our next issue. To learn more about his trip to the International Space Station, visit www.richardinspace.com. Read Part I of this article at FiscalNotes.com.

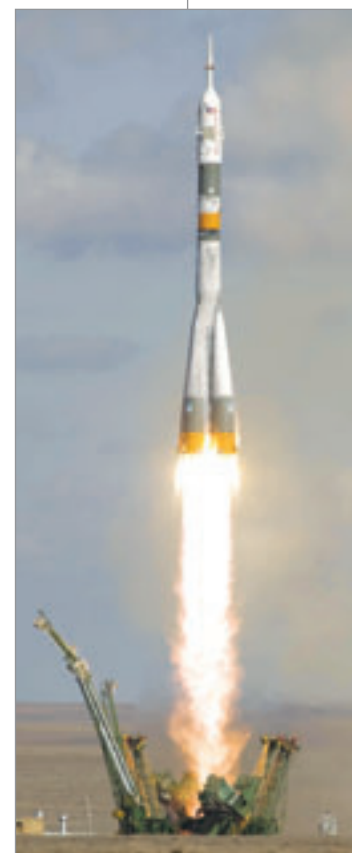


Photo courtesy of NASA

Richard Garriott goes on vacation, Oct. 12, 2008.

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Social Media and Business: the New Rules

by Michael Castellon

Consumers Set New Expectations

In 1999, David “Doc” Searls and a small band of fellow journalists and technology enthusiasts proposed that the Internet was much more than just a new vehicle for text and images.

They saw that the Internet scratched a primitive itch possessed by humans: to connect and to be understood, to tell tales and participate in the village bazaar.

Ancient markets depended on storytelling and word of mouth. The Internet, they predicted, would bring that back, forcing companies to interact with their customers on a one-to-one

“Companies are realizing that these computers aren’t running themselves, and that there are people behind them that expect engagement.”

— Kelly Park

basis, as individuals. Companies that failed to participate in the new model would be doomed.

More than a decade later, the theories proposed by Searls and his colleagues, collected in a book called *The Cluetrain Manifesto*, have proven astonishingly accurate.

Cluetrain contained 95 “theses,” such as: *Markets consist of human beings, not demographic sectors.*

Companies can now communicate with their markets directly. If they blow it, it could be their last chance.

And Companies that speak in the language of the pitch, the dog and pony show, are no longer speaking to anyone.

Today, poorly treated customers can use Twitter and Facebook to inform hundreds or thousands of readers about shoddy service, or visit Yelp.com and record a bad restaurant experience in an online journal for millions of other foodies. And companies are well aware of the new power their customers possess.

We're in the midst of a new era of interaction between company and customer. Social media — the online tools of interaction and communication — are becoming essential to society and business alike.

ONE ON ONE

Companies, no matter how small or large, must interact with their customers as individuals, with a human voice. Those who do not may be doomed to obsolescence.

Few companies in Texas use social media as effectively as Dallas-based Southwest Airlines. The company's employees blog and use Twitter (the corporate feed has more than 1.1 million followers), post to Facebook



and use e-mail to promote travel deals and handle customer service requests.

"We want very little of our content to be 'corporate talk,'" says Linda Rutherford, vice president for communications and strategic outreach at the airline. Her teams oversee Southwest's social media channels. "The message is 'we're humans, and we know you are, too.'"

Last September, for example, when Hurricane Earl threatened much of the Eastern Seaboard, Southwest took to Twitter and Facebook to tell customers about delays and operational status.

"When Southwest started in 1971, the company had no money for advertising," Rutherford says. "We had to depend a lot on one-on-one conversations. These 'microconversations' are what we were doing 40 years ago, so it's a natural fit for us to use these tools."

According to a report from Forrester Research, 145 million U.S. users use social web applications, generating 500 billion page views per year. The report also found that our online conversations with one another rival the impact of online advertising — more or less as *The Cluetrain Manifesto* predicted in 1999.

Word of mouth has become essential to successful business.

IT'LL COME TO US

Kelly Park works in human resources for a rent-to-own company in the Dallas-Fort Worth Metroplex. In her free time, she blogs on topics ranging from *Star Wars* to literature. After spending a decade traveling the world with the U.S. Navy, she now uses social tools

to meet and connect with friends all over the world. Her long-term goal is to put her knowledge of social networks to work.



Linda Rutherford,
Vice President of Communication
and Strategic Outreach,
Southwest Airlines

"I just find it fascinating," she says. "As human beings, we're curious about others, how other people are doing. I can do that online."

By plugging into virtual communities and speaking their language, Park hopes to someday help organizations participate in online conversations.

"Companies are realizing that these computers aren't running themselves, and that there are people behind them that expect engagement," she says. "Companies have to be involved. They have to be transparent. We're not going to drift toward them, they have to come to us."

A recent CareerBuilder survey of more than 2,500 companies found that 35 percent of them use social media. About 25 percent reported using social media to connect with clients and find new business, while 21 percent use these tools to recruit and research potential employees.

There's little doubt that these trends are pushing more and more companies to hire social media professionals.

In late September, the job search website SimplyHired.com listed more than 300 social media jobs in Texas alone, from small companies to big players such as Dell.

At Southwest, social tools are delegated among communications and marketing staff. About three positions concentrate on social media.

"We've been good at using existing staff and cross-utilizing talent," Rutherford says.

New trends continue to fuel growth in social media. The Internet is growing away from the browser and toward mobile apps that run on phones and tablets, from text and still images to full-motion video. Local online advertising is becoming more important, as are strategies for business success that move beyond advertising.

SERVICE IN THE MOMENT

For companies such as Southwest, the rise of social media means continued evolution in customer service.

Southwest counts its followers on Facebook and Twitter, and also measures customer engagement by the number of comments left on their blogs.

Full Disclosure — employees using social media have to tell members of the public they work for Southwest. They also must include a disclaimer on any personal sites that says they're not speaking for the company in any official capacity.

Seek Opportunity — *any* customer can be a reporter, and with every interaction there's an opportunity to win a customer. Southwest views its guidelines as an opportunity for excellent customer service.



"We're looking at expanding customer service 'in the moment' to help address customers the moment they reach out to us," Rutherford says. "We'll also be looking at ways to leverage consumer-generated content, so our customers can help tell our story."

Asked what her dream job would be, Kelly Park doesn't hesitate.

"Working in social media for George Lucas," she says. "Without a doubt." **FN**

Read an exclusive interview with *Cluetrain Manifesto* author Doc Searls at www.TexasInnovator.org.

WE'RE MOVING TO THE WEB!

To help keep spending down, *Fiscal Notes* is becoming an online-only publication. Be sure to sign up for e-mail updates at fiscalnotes.com to make sure you don't miss a single issue!



Rainy Day Fund 101

A Look at the Basics

by Gerard MacCrossan

Don't spend more than you have — that's wise financial advice for anyone, but it's a budgeting rule that Texas state government can't break.

Right now, Texas lawmakers are grappling with the next state budget, for 2012 and 2013. They will consider

Texas' rainy day fund is generated largely by oil and gas production taxes.

how to spend revenues available from various taxes, fees and, perhaps, the Economic Stabilization Fund (ESF), Texas' so-called rainy day fund.

This fund may provide some good news in tight budgetary times, as our state attempts to provide ever more-expensive services to a growing population. But the ESF isn't a cure-all.

BE PREPARED

Forty-eight U.S. states have some kind of rainy day fund, according to the National Association of State Budget Officers (NASBO). NASBO also reports

that two states — Texas and Alaska — have rainy day fund balances exceeding those of all other states combined.

In November, "we transferred another \$451.5 million into the ESF," says the Comptroller's Chief Revenue Estimator John Heleman.

That increased the Texas rainy day fund to about \$8.2 billion, the highest balance since the fund's establishment in 1988.

Unusually among the states, Texas' rainy day fund is generated largely by oil and gas production taxes. Appropriations from the fund to close a budget deficit caused by declining revenues require three-fifths approval by legislators; all other appropriations would require a two-thirds majority vote.

PUTTING SOMETHING AWAY

The ESF was born at a time when the state's 1986 economic slump was still fresh in mind. Texas voters approved a constitutional amendment creating the fund in the November 1988 general election.

The ESF receives most of its funding based on a formula involving the base year of 1987. If the state's annual oil and/or gas production tax collections exceed those collected in fiscal 1987,

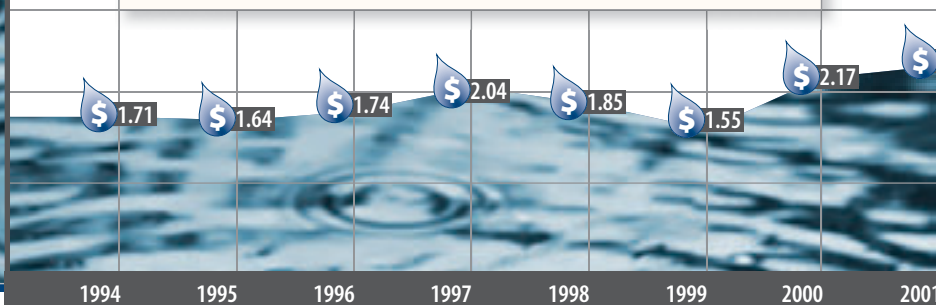
NATURAL GAS FUELS RAINY DAY FUND

Much of the recent growth in Texas' Economic Stabilization Fund is due to sharp increases in the price of natural gas, which drove up contributions from the state's natural gas production tax.

Source: U.S. Energy Information Administration

U.S. NATURAL GAS WELL HEAD PRICE

(DOLLARS PER THOUSAND CUBIC FEET)



THE 2011 LEGISLATURE HAS NEARLY—

\$8.2

BILLION

AVAILABLE IN THE RAINY DAY FUND

TEXAS' PLUS ALASKA'S RAINY DAY FUNDS
EXCEED ALL OTHER STATES COMBINED


VOTES NEEDED TO ACCESS ESF

3/5

OF LEGISLATIVE
VOTES
NEEDED TO CLOSE A
DEFICIT CAUSED BY A
REVENUE DECLINE

2/3

OF LEGISLATIVE
VOTES
NEEDED FOR OTHER
APPROPRIATIONS

STATES WITH RAINY DAY FUNDS
THAT HAVE BALANCES OF
AT LEAST 15 PERCENT OF
FISCAL 2011 BUDGETED EXPENDITURES

RAINY DAY FUND BALANCE

WEST VIRGINIA 15%

TEXAS 18.2%

NORTH DAKOTA 19.6%

WYOMING 28.1%

ALASKA 237%

Source: National Association of State Budget Officers

75 percent of the amount above that level is transferred into the fund. The Comptroller's office typically makes these transfers in November of each year.

"Natural gas tax and oil production tax revenue transfers were made in 17 of the last 22 years," says Mark Bures, a Comptroller fiscal analyst. "Oil production tax revenue has been transferred in seven of the last 22 years."

The rainy day fund also receives half of any "unencumbered" general revenue — that is, unspent and not reserved for a specific purpose — left at the end of each biennium. The fund also retains interest earned on its fund balance. The Legislature also may make direct appropriations to the fund, but has never done so.

\$7.2

BILLION

NATURAL GAS TAXES HAVE
CONTRIBUTED ALMOST
\$7.2 BILLION TO THE
RAINY DAY FUND.

The ESF received its first funds in 1990, with a transfer of \$18.5 million. Deposits and withdrawals directed by the Legislature usually kept the ESF balance below \$100 million until 2001.

In 2002, however, ESF deposits and interest exceeded \$700 million, pushing the fund's balance above \$900 million — a definite plus for the 2003 Legislature, which was grappling with a \$10 billion budget gap. In that session, the Legislature appropriated virtually all of the fund's revenues.

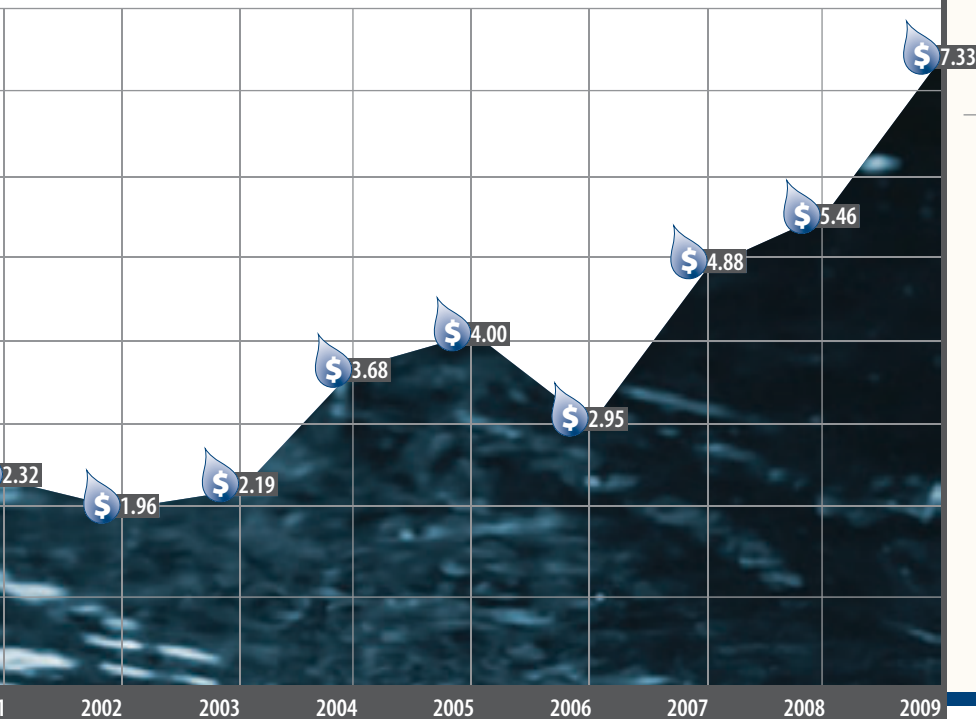
The 2003 and 2005 Legislatures appropriated ESF funds to purposes including the Teacher Retirement System, state health and human services, the Governor's Office and the Texas Education Agency.

BOUNTIFUL YEARS

The ESF grew rapidly in the last decade, although revenues slowed when oil and gas prices plunged in 2008.

This growth was due largely to substantial increases in collections from the state's natural gas tax. Over the years, natural gas taxes have contributed almost \$7.3 billion to the rainy day fund. Oil tax transfers accounted for \$2 billion and unencumbered balances

CONTINUED ON PAGE 11



Locking in Success

by Clint Shields

Plan offers today's prices for tomorrow's education



TEXAS TUITION
PROMISE FUND®
A Prepaid Plan as Smart as You Are

It's an annual event that offers better lives for thousands of Texas kids — the enrollment period for the Texas Tuition Promise Fund (TTPF). The 2010-11 enrollment period, marking the TTPF's third year, runs from September 2010 to Feb. 28, 2011.

The Tuition Promise Fund is a state-administered prepaid tuition plan that allows its participants to lock in the cost of college tuition and fees at Texas public colleges and universities at today's prices.

And that's a significant advantage, given the skyrocketing cost of higher education. In Texas, the average cost of 15 credit hours at a public college or university has risen by more than 70 percent since 2003, according to the Texas Higher Education Coordinating Board.

"Many parents feel helpless when confronted by economic uncertainty and rising tuition costs," says Kevin Deiters, director of the Comptroller's Educational Opportunities and Investment Division. "But they need to step back and realize that college is much more affordable than people think — and that more resources are available to students than ever before."

As of early December 2010, TTPF had received more than 1,200 new applications worth about \$17 million in contracts. Tight budgets for many Texans slowed enrollment in the 2009-10 period to about 4,200, compared with more than 13,000 enrollments in the TTPF's initial round in 2008-09. In those first two enrollment periods, Texans purchased more than \$300 million in TTPF contracts.

A FLEXIBLE COMMITMENT

TTPF is based on "units" of college education. Think of the cost of tuition and required fees for 30 semester credit hours — for most students, a typical course load for two semesters. Now divide the cost for those hours by 100, and you have a single unit. Four hundred units, then, are generally equivalent to four years of college.

"One of the best things about the program is its flexibility, both in the type of units parents can purchase and the payment options available," says Linda Fernandez, TTPF program manager. "Parents can pay for all units at one time or spread the cost over the remaining time until the beneficiary goes to college. For newborns, that could be as long as 18 years. There's an option for every budget," she says.

You'll need a separate contract for each child enrolled in TTPF, but many families enroll multiple children. To qualify, the child must be a Texas resident or the parent must be the purchaser and a Texas resident. Units must be held for at least three years before they can be redeemed.

Interested parents also have a couple of different options concerning deadlines. For most kids, the 2010-11 enrollment window is open until Feb. 28, 2011. Parents with a newborn

or a child less than one year old, however, can enroll until July 31, 2011.

TTPF also allows grandparents, aunts, uncles and others to help in building funds for a college education. The plan's "gifting" feature allows family and friends to contribute funds to a TTPF account — and at any time, not just during an enrollment period. Understandably, parents made up 87 percent of new contract purchasers in the first two enrollment periods, but Deiters says the importance of getting the whole family involved can't be overstated.

"Parents should encourage friends and family to contribute to their child's college education," he says. "It makes it easy for them to contribute on special occasions — birthdays, holidays, quinceañeras, elementary school graduations and other events. Although the whole family can contribute, the parents still control how the money is spent on their child's education." **FN**

Complete plan information, enrollment forms, answers to frequently asked questions and more are available online at www.texas tuition promisefund.com.



In Texas, the average cost for 15 credit hours at a public college or university has risen by more than 70 percent since 2003.

CONTINUED FROM PAGE 9

transferred in 1992 and 2008 added another \$1.8 billion.

Most other states rely on appropriations and surpluses to fill their rainy day funds. These funds generally are equal to only a few percent of their annual expenditures. According to NASBO's fiscal survey, only five states have rainy day funds with balances equal to at least 15 percent of fiscal 2011 budgeted expenditures — West Virginia (15 percent), Texas (18.2 percent), North Dakota (19.6 percent), Wyoming (28.1 percent) and Alaska (237 percent).

The fund certainly has performed as designed — when times are good, the fund grows.

But no one can predict with certainty how much the fund will receive from energy taxes over time, given the continuing volatility of these markets.

IS IT RAINING YET?

Will the lingering effects of the recession force Texas to dip into the fund? That answer, of course, will come from the 2011 Legislature.

According to NASBO, 19 states tapped their funds in fiscal 2010. Texas wasn't one of them.

But it's up to the lawmakers who write the state's budget to decide if they'll use those savings and appropriate the money they've been setting aside for a rainy day. **FN**

The National Association of State Budget Officers' *Fiscal Survey of States 2010* examines the fiscal situation facing Texas and other states, including rainy day fund projections for fiscal 2011. The report can be downloaded for free from www.nasbo.org.

SOMETHING FOR A RAINY DAY

Texas' Economic Stabilization Fund has been a valuable tool for state budget crunchers over the years. At the beginning of the 2011 legislative session, the fund contained nearly \$8.2 billion.

ECONOMIC STABILIZATION FUND HISTORY

(IN MILLIONS)

FISCAL YEAR	DEPOSITS	INTEREST	NET TRANSFERS/ EXPENDITURES	ENDING BALANCE
1990	18.5	0.8	-	19.3
1991	7.8	1.9	-29.0	-
1992	156.6	6.8	-	163.4
1993	-	7.4	-119.0	51.7
1994	31.0	3.0	-56.6	29.1
1995	-	0.6	-21.5	8.1
1996	-	0.4	-0.5	8.0
1997	-	0.4	-	8.5
1998	47.5	2.3	-	58.3
1999	17.9	3.8	-	80.0
2000	-	4.7	-	84.7
2001	103.1	8.7	-	196.5
2002	685.8	21.6	-	903.9
2003	83.6	19.4	-446.5	560.5
2004	352.6	5.5	-552.0	365.6
2005	594.5	17.3	970.5	6.9
2006	905.0	21.5	-528.3	405.2
2007	1,551.9	65.8	-691.5	1,331.4
2008	2,978.5	136.0	-90.5	4,355.4
2009	2,241.9	128.8	-0.4	6,725.7
2010	869.9	97.0	-	7,692.6
2011	451.5	26.5*	-	-
Total	\$11,097.7	\$580.2	-\$3,507.4	\$8,170.6

* Estimated interest income for the first three months of fiscal 2010 (September, October, November and December).
Source: Texas Comptroller of Public Accounts



THIS IS THE LAST PAPER ISSUE OF FISCAL NOTES!

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Brief Bytes

by Editorial Staff

TEXAS EXPORT LEADERS

Dallas-Fort Worth and Houston are national leaders in exports and related employment, according to a July 2010 study by the Brookings Institution. The study ranked 100 U.S. metropolitan areas based on 2008 export data.

In 2008, the Dallas-Fort Worth metro area ranked fourth nationally in export-related employment, with 303,514 jobs, while Houston was sixth with 235,193 jobs. Houston also ranked fourth nationally in the value of its exports, at \$51.6 billion. Dallas-Fort Worth followed in fifth place, with \$44.6 billion. Houston also ranked fourth nationally in export growth, racking up a 20 percent increase from 2003 to 2008.

To view the entire report, including rankings for 100 U.S. metro areas, visit www.brookings.edu/metro/MetroExports.

(Tracey Lamphere)



REBUILDING A MARSH

In the last 60 years, nearly 340 acres of intertidal marshland along the Nueces Bay Causeway, north of Corpus Christi, were eroded due to weather and road construction.

Thanks to the Coastal Bend Bays & Estuaries Program (CBBEP), a restoration effort along the causeway will recreate 160 acres of marshland. A vital element of the bay's ecosystem, the intertidal marsh is home to fish, shrimp and crabs, and provides food for waterbirds.

Remarkably, state funds represent less than 25 percent of CBBEP's total construction budget. The program used \$530,000 from the Texas Commission on Environmental Quality to attract more than \$1.9 million in matching federal funds.

CBBEP began work on the marsh restoration in July 2010 and plans to complete the project by March 2011.

The marsh restoration will benefit not only the bay's ecosystem, but residents and

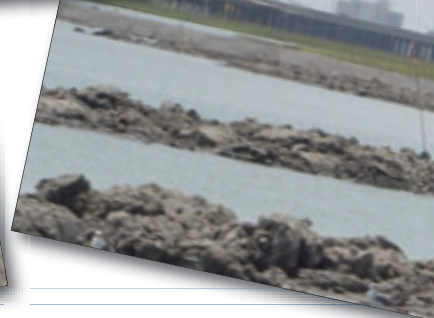
visitors who will enjoy enhanced public access and opportunities to fish and kayak in the restored region.

Texans may contribute to the restoration process through volunteer planting, arranged in partnership with the Coastal Bend Bays Foundation and Coastal Conservation Association. To participate, "All you have to have is a pair of boots," says CBBEP Communications Manager Beth Wilson.

The program offers educational presentations to residents and visitors on the causeway restoration and its environmental and community impact.

To learn more about the projects of the Coastal Bend Bays & Estuaries Program, visit www.cbbep.org.

(Meghan Vail)





TAKING THE LEED IN LEAGUE CITY

In August, Associated Credit Union (ACU) of Texas opened the first Leadership in Energy and Environment Design (LEED)-certified green building in League City.

Upfront construction costs were more expensive, but the long-term savings make up for it, says Jack Click, ACU of Texas president and CEO.

The 30,000-square-foot corporate headquarters and branch office includes a “cool roof” system that reduces the demand for electrical power by up to 10 percent. An energy-efficient air conditioning system circulates fresh air from outside, while impact-resistant reflective windows allow natural light in, reducing the need for artificial lighting while reducing heat transfer. Drought-tolerant landscaping surrounding the building reduces overall water usage.

“As a credit union, we’re tight with our members’ money,” Click says. “While the initial costs for the building were a little bit more, the costs over the life of the building are less.” Click expects monthly utility savings of about 15 percent.

The U.S. Green Building Council’s Green Building Certification Institute certifies LEED projects, providing independent verification of the use of green building techniques and materials. Becoming LEED-certified also requires the use of recycled materials and materials obtained within 500 miles of the construction site.

“In 10 years, green building will be standard in construction,” Click says.

To learn more about LEED certification, visit the Green Building Certification Institute at www.gbci.org.

(Tracey Lamphere)



HELP FOR FUTURE HOMEOWNERS

TxHomePrograms.org, a new website, offers prospective Texas homeowners a searchable database of affordable housing programs. Created by the Texas Association of Realtors, the site lets consumers search for programs that offer assistance with down payments and closing costs.

TxHomePrograms.org is an interactive and personalized tool for prospective Texas homeowners, says John Gormley, vice president of communications and marketing for the Texas Association of Realtors.

“With a lot of affordable housing programs, the eligibility requirements depend on household income and can change depending on zip code and the location,” Gormley says. “Texas is a large state geographically and very diverse in terms of home ownership and home ownership patterns. What’s great about *TxHomeprograms.org* is that consumers can input basic information, including

their household income and zip code, and that will return a list of programs they should be eligible for.”

The site launched in May 2010, shortly after the federal first-time homebuyer tax credit expired. Gormley says the site offers a wealth of resources on other state and local homebuyer assistance programs. Since launching, the site has received more than 790,000 hits from 18,000 unique visitors.

For more information, or to find homebuyer assistance programs in your area, visit www.TxHomePrograms.org.

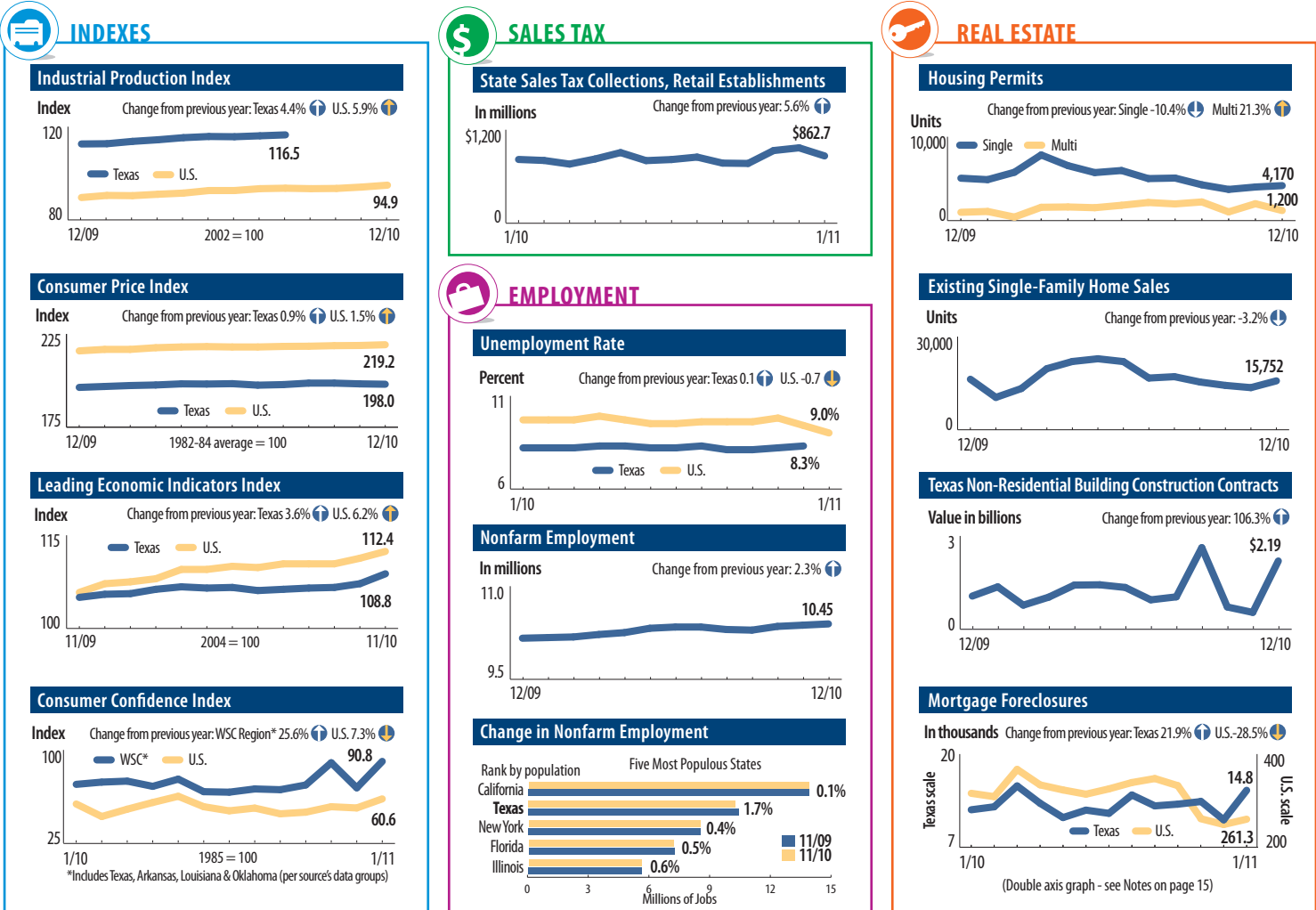
(Karen Hudgins)



Texas by the Numbers

For detailed statistics on the Texas economy, check the Comptroller's website at www.TexasAhead.org

Key Texas Economic Indicators - Texas total nonfarm employment increased by 20,000 jobs from November to December. Between December 2009 and December 2010, Texas gained 230,800 jobs. Over the past year, Texas added jobs in most sectors, including construction, manufacturing, mining and logging, leisure and hospitality, financial activities, professional and business services, educational and health services and government.



Texas Production and Consumption Indicators

DATE	Crude Oil Production	Natural Gas Production	Active Oil & Gas Drilling Rigs	Motor Fuels Taxed		Median Sale Price, Existing Single-family Home	Auto Sales	Cigarettes Taxed
	Value (MILLIONS)	Value (MILLIONS)	Units	Gasoline (MILLIONS OF GALLONS)	Diesel (MILLIONS OF GALLONS)	Dollars	Net Value (MILLIONS)	Packages of 20 (MILLIONS)
2008	\$30,409.17	\$34,415.89	892	11,709.7	3,854.0	\$145,800	\$44,442.4	1,077.0
2009	18,455.53	12,167.80	431	11,916.3	3,475.8	143,600	34,792.6	961.6
JAN-10	2,027.2	1,422.3	519	992.8	287.6	136,900	2,815.3	69.5
FEB-10	1,817.1	1,241.1	549	945.5	289.6	141,100	2,969.2	72.4
MAR-10	2,207.6	1,257.7	593	913.6	273.8	144,000	3,356.2	87.2
APR-10	2,251.3	1,093.9	633	1,032.9	327.8	146,700	3,011.3	81.8
MAY-10	2,009.1	1,169.5	647	1,002.8	315.8	148,100	2,852.6	75.9
JUN-10	1,915.5	1,177.9	663	1,060.4	313.5	152,300	3,490.5	81.0
JUL-10	2,070.6	1,294.8	676	1,028.3	319.0	154,500	3,460.0	81.2
AUG-10	2,153.7	1,388.3	714	1,034.2	311.4	153,000	3,587.7	81.4
SEP-10	2,082.3	1,209.30	721	1,053.6	310.2	146,900	3,432.6	87.6
OCT-10	2,364.8	1,325.42	717	1,001.6	318.5	144,800	3,325.9	82.4
NOV-10	2,391.7	1,209.32	734	1,031.7	322.2	146,500	3,231.1	79.5
DEC-10	2,620.3		746	1,044.4	308.8	150,600		71.4
JAN-11			736					

December Cash Condition ¹			
(Amounts in millions)	General Revenue	Other Funds	Total Cash
BEGINNING BALANCE DECEMBER 1, 2010	\$2,025.5	\$21,928.8	\$23,954.3
Revenue/Expenditures			
Revenue	6,582.9	2,434.7	9,017.6
Expenditures	6,515.9	2,693.1	9,209.0
Net Income (outgo)	\$67.0	\$-258.4	\$-191.4
Net Interfund Transfers and Investment Transactions	\$-25.6	\$690.3	\$664.7
Total Transactions	41.4	431.9	473.3
END CASH BALANCE DECEMBER 31, 2010²	\$2,066.9	\$22,360.7	\$24,427.6
¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.			
² The ending General Revenue Fund balance includes \$7.8 billion derived from the sale of cash management notes.			

State Revenue/All Funds ¹			
(Amounts in millions)	Monthly Revenue	Fiscal Year-to-Date December 2010	
	December 2010	Revenue	% Change YTD/YTD
TAX COLLECTIONS BY MAJOR TAX			
Sales Tax	\$1,813.6	\$6,862.9	7.9%
Oil Production Tax	105.2	394.1	19.5
Natural Gas Production Tax	93.3	329.9	452.1
Motor Fuel Taxes	265.3	1,057.0	6.4
Motor Vehicle Sales Tax	224.1	935.5	14.1
Franchise Tax	-262.0	-235.1	-414.3
Cigarette & Tobacco Taxes	117.5	503.3	17.5
Alcoholic Beverages Tax	66.1	271.3	6.4
Insurance Companies Tax	12.6	47.8	-25.6
Utility Taxes ²	1.0	124.3	1.7
Inheritance Tax	0.0	0.0	87.1
Hotel/Motel Tax	25.9	116.8	12.2
Other Taxes ³	2.6	283.9	118.3
TOTAL TAX COLLECTIONS	\$2,465.2	\$10,691.7	9.8%
REVENUE BY RECEIPT TYPE			
Tax Collections	\$2,465.2	\$10,691.7	9.8%
Federal Income	3,532.7	14,173.2	14.3
Interest and Investment Income	167.6	471.2	-7.4
Licenses, fees, permits, fines,	911.4	2,595.4	28.5
Contributions to Employee Benefits	507.5	1,702.8	7.0
Sales of Goods and Services	29.1	111.3	-9.0
Land Income	92.6	494.2	122.6
Net Lottery Proceeds ⁴	157.3	530.2	-6.4
Other Revenue Sources	1,154.3	3,135.6	8.3
TOTAL NET REVENUE	\$9,017.6	\$33,905.5	12.8%
¹ Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.			
² Includes the utility, gas utility administration and public utility gross receipts taxes.			
³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.			
⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.			

NOTES:

Crude oil and natural gas figures are net taxable values. Gasoline gallons include gasoline. Auto sale values are calculated from motor vehicle taxes collected on new and used vehicle sales. All figures are seasonally adjusted, except for sales tax collections; rigs; consumer price; housing permits/sales/prices; and consumer confidence. Figures are based on the most recent available data. Annual figures are for calendar years. [† Double axis graphs: Graphs with two vertical axes show values for Texas on the left and values for the U.S. on the right. This method shows trends more clearly over the last year when data values are substantially different at state and national levels.]

SOURCES:

KEY TEXAS ECONOMIC INDICATORS:

Consumer Price Index, Change in Nonfarm Employment: U.S. Bureau of Labor Statistics

Consumer Confidence Index: The Conference Board

Leading Economic Indicators Index: Texas Comptroller of Public Accounts, The Conference Board

Unemployment Rate: Texas Workforce Commission, U.S. Bureau of Labor Statistics

Nonfarm Employment: Texas Workforce Commission

State Sales Tax Collections, Retail Establishments: Texas Comptroller of Public Accounts

Housing Permits, Existing Single-family Home Sales: The Real Estate Center at Texas A&M University

Industrial Production Index: Federal Reserve Bank of Dallas

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures	Fiscal Year-to-Date December 2010	
	December 2010	Expenditures	% Change YTD/YTD
BY OBJECT			
Salaries and Wages	\$932.5	\$3,658.5	-0.2%
Employee Benefits/Teacher Retirement Contribution	855.8	3,386.9	4.2
Supplies and Materials	86.0	355.7	2.0
Other Expenditures	318.0	1,172.2	-6.8
Public Assistance Payments	4,614.4	16,104.8	10.1
Intergovernmental Payments:			
Foundation School Program Grants	545.5	8,955.9	1.5
Other Public Education Grants	1,209.4	2,527.7	16.0
Grants to Higher Education	106.8	515.7	1.7
Other Grants	282.6	1,177.5	5.1
Travel	13.2	52.3	-3.7
Professional Services and Fees	172.6	806.6	-2.8
Payment of Interest/Debt Service	46.8	333.7	7.7
Highway Construction and Maintenance	338.1	1,345.9	11.5
Capital Outlay	53.5	186.6	-5.3
Repairs and Maintenance	64.5	292.4	-4.0
Communications and Utilities	42.0	182.0	9.5
Rentals and Leases	22.3	101.6	-3.2
Claims and Judgments	9.6	35.2	-41.5
Cost of Goods Sold	36.2	149.6	-3.6
Printing and Reproduction	4.8	15.7	-2.0
TOTAL NET EXPENDITURES	\$9,209.0	\$41,356.4	5.7%
BY FUNCTION			
General Government			
Executive	\$694.2	\$2,629.3	19.4%
Legislative	10.8	44.5	-7.0
Judicial	16.9	90.6	5.0
Subtotal	721.8	2,764.5	18.4
Health and Human Services	4,333.8	15,411.7	8.0
Public Safety and Corrections	390.1	1,653.8	-7.2
Transportation	587.1	2,354.4	8.0
Natural Resources/Recreational Services	138.0	579.9	-10.5
Education	2,125.5	14,771.9	3.3
Regulatory Agencies	22.6	142.0	-4.1
Employee Benefits	747.4	2,992.9	7.0
Debt Service—Interest	46.8	333.7	7.7
Capital Outlay	53.5	186.6	-5.3
Lottery Winnings Paid ²	42.3	165.0	13.5
TOTAL NET EXPENDITURES	\$9,209.0	\$41,356.4	5.7%
¹ Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.			
² Does not include payments made by retailers. Previously shown as "Other expenditures."			

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.

Contract Value, Non-Residential Building Construction: McGraw-Hill
Mortgage Foreclosures: RealtyTrac

TEXAS PRODUCTION AND CONSUMPTION INDICATORS:

Crude Oil, Natural Gas, Motor Fuels, Auto Sales, Cigarettes: Texas Comptroller of Public Accounts
Active Oil & Gas Drilling Rigs: Baker-Hughes Incorporated
Median Sale Price, Existing Single-family Home: The Real Estate Center at Texas A&M University



Fiscal Notes is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

Fiscal Notes also provides a periodic summary of the financial statements for the State of Texas.

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HISPANIC-OWNED BUSINESSES RISING IN TEXAS

In September, the U.S. Census Bureau announced that the number of Hispanic-owned businesses in Texas rose by 40.1 percent between 2002 and 2007, to a total of 447,486. During the same period, their sales rose by nearly 47.2 percent, to \$62.1 billion.

In the state's 10 largest cities, the number of Hispanic-owned businesses rose at rates ranging from 22.6 percent in Houston to 51.8 percent in Arlington.



HISPANIC-OWNED BUSINESS IN TEXAS' 10 LARGEST CITIES, 2002-2007

City	Number of Hispanic-owned firms, 2007	Number of Hispanic-owned firms, 2002	Percent change, 2002 - 2007 (%)
Houston	51,207	41,753	22.6
Dallas	18,144	13,673	32.7
El Paso	31,640	23,849	32.7
Corpus Christi	8,849	6,654	33.0
Garland	3,979	2,855	39.4
Plano	1,786	1,267	41.0
San Antonio	43,081	29,654	45.3
Austin	10,526	7,045	49.4
Fort Worth	8,169	5,453	49.8
Arlington	3,870	2,549	51.8

Source: U.S. Census Bureau